

REQUEST FOR APPROVAL OF COMMUNITIZATION AGREEMENT

Targe Energy Exploration and Production LLC
P.O. Box 2624
Cody, WY 82414

Township 35 North, Range 1 East

Section 13: W½

Section 14: E½

640.00 Acres

Toole County

State Tract(s):

Section 14: E½

320.00 Acres

Trust: Common Schools

Targe Energy Exploration and Production LLC have filed a request with the Department for the approval of a communitization agreement to communitize State owned acreage to permit development in conformity with regulations of the Montana Board of Oil and Gas Conservation Commission (BOGC).

A communitization agreement brings together small tracts sufficient for the granting of a well permit under applicable spacing rules. Communitization agreements are not formed until after a well has been drilled and proven to be productive. The communitization agreement provides for distribution of royalties and must be approved and signed by the Department to be effective. Communitization is important in the prevention of drilling of unnecessary and uneconomic wells which would result in physical and economic waste.

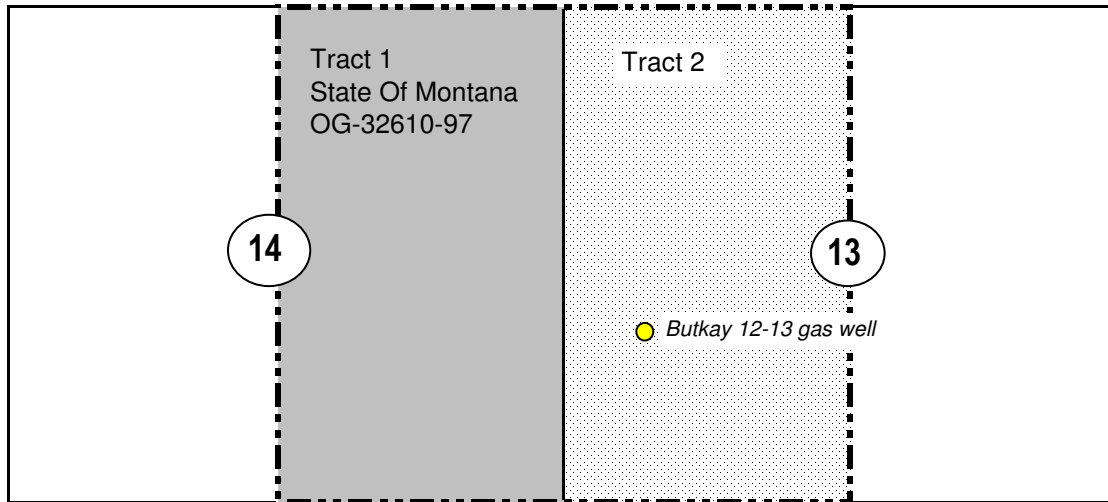
The Butkay 12-13 gas well, was spudded in the NW¼SW¼ of Section 13. This spacing unit has a total of 640.00.00 acres. The State owns a total of 320 acres of the 640 mineral acres in the spacing unit that will be communitized. All the mineral owners in the spacing unit will share in the royalty from this well. The Communitization Agreement includes only the Bow Island, Kootenai, Sawtooth and Mississippian – Madison formations in the W½ of Section 13 & the E½ of Section 14.

The State has 1 tract which comprises 50% of the communitized area. The communitized production will be allocated to each tract based upon the relationship of its acreage to the total acreage within the communitized area. The State will consequently receive 6.25% of gas production (12.5% royalty rate x 50% tract participation) for Tract 1.

The Communitization Agreement will allow the State to receive its proper share of production from the spacing unit. Therefore, the Director recommends approval of this Communitization Agreement.

Township 35 North Range 1 East

Sections 13 (W_{1/2}) & 14 (E_{1/2})



Recapitulation

Tract No.	Type	Acres	Tract Participation	Royalty %	Owners Interest Decimal
1	State of Montana OG-32610-97	320	50.00%	12.50%	0.062500
2	Butkay et al	320	50.00%	15 to 17%	0.075 - 0.085
Total		640	100.00%		

* The Operator of the Communitized Area is Targe Energy Exploration and Production LLC